

GEO

Guyana Economic Opportunities

Proposal to Support Institutional Strengthening of Guyana's Private Sector Commission

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I. Objective and Purpose

The objective of this assistance is to build the capacity of the Private Sector Commission (PSC) to undertake sound economic analysis, thereby enhancing its strategic role in promoting Guyana's continued economic development and political stability. The requested funding will provide the PSC leadership with an Economic Policy Unit to better analyze economic issues and to develop well-researched and well-written proposals for economic reform that can be used to initiate high-level policy dialogue with the Government. By assuming a stronger advocacy role for economic change, the Commission's growing influence will also be strengthened in the political and social arenas.

II. Background

From independence in 1966 through the 1980s, Guyana's development was characterized by increasing State control of most of its political, economic, and social institutions. By the time of the first Economic Recovery Program (ERP) in 1989, the state controlled more than 70 percent of all economic activity. Local governments were appointed rather than elected, national elections were widely regarded as having been fraudulent, nongovernmental organizations (NGOs) were openly discouraged, unions acted as extensions of the state, and what little private enterprise existed was powerless to advocate for change.

Since 1989, Guyana has undergone significant change in most areas. The economy has been liberalized, most state enterprises and parastatals have been privatized, the macroeconomy has been stabilized, production and export of Guyana's traditional commodities have greatly increased, and the private sector is gradually being revitalized.

In 1992, the first free and open national elections in over three decades were held. A successful, if not totally peaceful, transition of power took place, an independent media reappeared, and a multitude of small but new political parties emerged.

Although significant progress has been made in Guyana's return to democracy and in economic liberalization, the path has not been easy. Antagonisms between the two dominant political parties (and ethnic groups) remain high and run deep. The current political climate is volatile, and Guyana's nascent democracy remains fragile. The economic successes of the past decade have probably been among the easiest of these changes to accomplish. The growth in traditional commodity production and exports represents, in many respects, a recovery of prior losses. Recent growth is largely the result of bringing idle capacity back into production. Future economic growth will be much more difficult and costly as Guyana seeks to diversify its economy, increase the value added to traditional production, and perhaps most importantly, attract the human and financial capital necessary to make both possible.

If Guyana has registered important gains in economic revitalization and its return to democracy, the reemergence of an independent, nonpartisan civil society and nongovernmental institutions has been much slower and less successful. With three decades of forced subservience to the

State, general poverty, a lack of resources, and ethnic divisions that hinder their formation, these institutions remain small and fragmented. They have yet to act as mediators, broker compromise, advocate for change on key national issues, or serve as independent government watchdogs.

The private business sector in Guyana has emerged to play these roles. It is a strong and independent voice on key issues and has intervened to broker successful agreements to political and social conflicts that have posed serious threats to Guyana's democracy, social stability, and economic vitality. In fact, the private business sector has been more successful as an intermediary in political and social disputes than it has been in lobbying for economic reforms. Yet clearly, continued economic growth is intimately tied to maintaining political stability, defusing ethnic tensions, and promoting social welfare. The deterioration of the economy will only serve to exacerbate the deterioration of the political dialogue.

Role of the Private Sector Commission

The Private Sector Commission, as the umbrella organization representing Guyana's formal private sector, is increasingly playing a crucial role as a partner with the Government. Currently comprised of 12 member organizations and 8 corporate members, the Commission was founded in 1992 to encourage private enterprise, coordinate resources within the private sector to improve economic problems, bring about greater understanding of the role of private enterprise, promote cooperation among associations and organizations representing the private sector, and establish programs for improving skills in the private sector.

Since its inception in 1992, the PSC has increasingly gained the confidence of the Government by acting as a nonpartisan mediator between the major political parties and among government, labor, and other public sector interests. For example:

- The PSC leadership was instrumental in preserving Guyana's electoral results in the 1997 national elections and in brokering the agreement that brought an end to civil strife.
- When the opposition party threatened to preempt the publication of the election audit results, the PSC stepped in to lead a negotiating team that included labor, religious groups, and NGOs. The action prevented further street protests and secured the successful publication of the audit results.
- When plans for the privatization of the Guyana Electricity Corporation (GEC) were strongly criticized, threatening to break off negotiations, the Commission led a quadrupartite negotiating group composed of consumers, labor, Government, and private business. The efforts of the group led to acceptance of the proposed rate increases and paved the way for GEC's privatization.

- Most recently, the PSC leadership successfully negotiated an end to the Public Sector Union strike.

Thus, the private business sector, largely through the leadership of the PSC, has played a crucial role in mediating recent national disputes that have threatened Guyana's economic, social, and political survival. The PSC has also attempted to play a larger role in promoting the policy reforms necessary to support continued economic growth and to prepare Guyana for the 21st century. However, as an advocate for economic reform, the Commission has been less successful in dealing with the Government, largely due to its inability to respond to Government positions using sound economic analysis.

III. Definition of the Problem

While the PSC has a successful history of political brokering and facilitation, its leadership lacks the training and skills needed to research, present, and argue policy reform from a strong economic position. To actively continue its role as an independent mediator in political conflicts and maintain its credibility as a nonpartisan participant in national debates, the PSC leadership needs unbiased information and analysis that results in sound, well-written assessments of economic issues, which at the same time incorporate clear understanding of the political context. The PSC leadership has targeted a number of areas in critical need of attention. Key targets include the adoption of an investment strategy and code, intellectual property rights, and reform of the Inland Revenue Department, Customs, the Central Tender Board, land tenure and distribution, and the judiciary. Other issues include the elimination of corruption, and improvements in education, literacy, and technical and vocational training. If it had the ability to collect and analyze economic information, the Commission could develop sound recommendations for policy change for discussion with the Government.

To do this, the Commission needs a trained staff and state-of-the-art information technology to research and analyze issues and to develop propositions and strategies for presentation to the Government. It cannot depend solely on Government-generated information. The resources described below will allow the PSC to strengthen its role as a mediator on both economic and political fronts.

IV. The Funding Proposal

The Commission is seeking funding to acquire the professional personnel necessary to staff an Economic Policy Unit that will strengthen the Commission's ability to sit as an equal partner with the Government on economic issues. The professional staff of two, a Chief and Junior Economist, will be supported by an Administrative Assistant with strong computer and information technology skills. Year 1 funding will include initial startup capital equipment costs, as well as cover most personnel costs of the three proposed staff members. PSC counterpart contribution will rise from 12% in Year 1 to 36% by Year 5. The target of covering salary costs for the Junior Economist will be met by Year 3 and both local staff position salaries by Year 5.

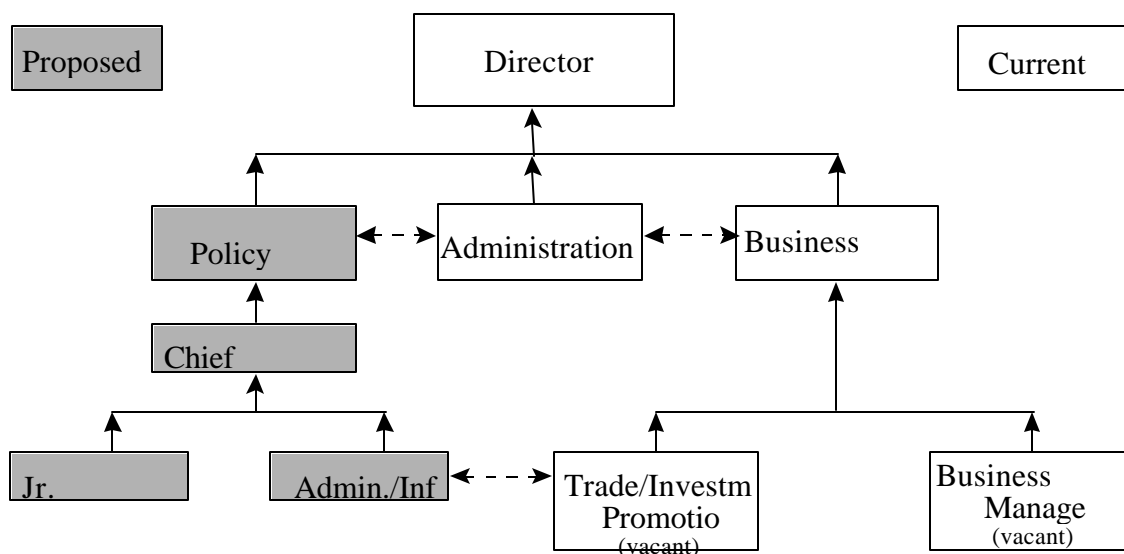
The increased professional capacity will become sustainable through training of the junior staff, with the goal that the Junior Economist will be able to continue the work of the Chief Economist after Year 5. The PSC financial contribution will increase as the Private Sector Centre, where the professional staff will be housed, offers more revenue-generating services.

The Private Sector Centre

The Private Sector Centre offers a logical site for the Commission's Economic Policy Unit staff. Established in 1996 with support from both USAID and the European Union (EU), the Centre provides some business services to members, including a data center and business library, trade information, access to computers and the Internet, business consultancy services, and assistance with financial planning. By sharing some administrative costs, the placement of the Policy Unit in the Centre is a cost-effective way to maximize the use of staff and resources.

The organigram below illustrates the Centre's current staffing of five, as well as the three proposed additional staff for the Policy Unit. At present, two key posts—the Trade/Investment Promotion Specialist and the Business Services Manager—are vacant. The Commission is actively recruiting for qualified replacements. These two positions are not included in this funding request.

Figure 1: Organization of the Private Sector Centre



Personnel

Three professional staff members are proposed to support the functions of the Commission and the Centre: a Chief Economist, a Junior Economist, and an Administrative Assistant with strong information technology skills. Together, these three positions will strengthen the ability of the PSC to identify and implement policy change, influence economic and political reforms, and further strengthen the Commission's revenue-generating business services.

The key function of the Chief Economist will be to help set the PSC policy agenda and to assess the options and recommend a strategy for a successful advocacy program. In addition, the Chief Economist will:

- research and analyze economic issues;
- liaise with representatives of Government, labor, and the private sector;
- brief the PSC and chairman on findings;
- prepare reports and policy papers for presentation by the PSC leadership in discussions with the Government;
- provide training and oversight to the Junior Economist.

Minimum Qualifications for the Chief Economist:

- Ph.D. in economics or business,
- 10 years of experience in at least one area of macroeconomics (fiscal, monetary, trade policy, etc.)
- private sector experience desired.

The Junior Economist, a local hire, will work closely with and report to the Chief Economist, with the view of eventually replacing him. The Junior Economist will:

- collect and analyze data,
- assist in analysis, prepare position papers and draft policy proposals,
- eventually assume the economic research and policy functions of the Chief Economist.

Minimum qualifications for the Junior Economist:

- Guyanese nationality,
- M.S. in economics or an MBA,
- 5 years work experience
- solid foundation in macro economics.

The Administrative Assistant/Information Specialist will be responsible for setting up and running the improved communication and information training services of the Private Sector Centre. The Administrative Assistant/Information Specialist will:

- develop and maintain the Centre's economic database;
- develop and maintain the PSC Web site;

- assist with the development of market and investment information to be disseminated through reports, newsletters, and the PSC Web site.

Other Resources

While the Centre currently has eight computers, the computers do not have the capacity to perform the information processing and analysis functions required by the Policy Unit or the expanded information services that the Centre will provide. Any attempt to run serious client/server applications, share data files of significant size, or use more sophisticated data base management applications and software, would be difficult, if not impossible. Upgrades of hardware and software are needed to meet the administrative, research, information, documentation and communication needs of the Centre and the Commission. The eight computers that the Centre currently has will be used in the expanded computer training program which the Centre will develop to augment client services and to increase revenue.

VI. Sustainability Strategies

In Guyana, the need for political mediation and advocacy, economic reform, and private enterprise services will always exist. Change in these areas will take place slowly; therefore, the need to ensure the sustainability of the Commission's activities is critical. As indicated by the financial plan in Section VII, the PSC's initial contribution is only 12 percent, reflecting the current low level of operations of the Commission and the Centre. Strategies to move the Commission toward sustainability include training, strengthening of income-generating business services, and increasing affiliate and corporate membership.

Training

One of the sustainability strategies of this funding proposal is to train the locally recruited Junior Economist to take over the position of the Chief Economist by the end of Year 5. At the same time, local staff will be given additional training to improve the Centre's training and services activities, thus enhancing the revenue potential of the Centre. This will ensure that the Commission has continued economic expertise and trained staff who can administer the revenue-producing activities of the Centre after funding ends.

New and Improved Business Services

The second strategy to achieve sustainability is to strengthen the Centre's current business services and add new services both to generate income and increase PSC membership. The proposed funding would not only strengthen the PSC's position as a political and economic mediator and advocate of reform. It will serve the additional function of developing income-generating services to be provided directly to businesses, thereby promoting the Centre's sustainability. Current services of the Centre include computer and internet access, and some business planning and feasibility studies. These services will be strengthened and expanded.

Additional services will include market research, investment and market data services, and computer training.

The Commission believes that the Private Sector Centre is the best site available for the provision of market and investment information services. These services will be developed and expanded to include information dissemination through the publication of monthly bulletins and the PSC Web site. Additional revenue will result from specific on-request market research.

Increased Commission Membership

The third strategy is to increase Commission membership. The Commission is actively recruiting new members and has undertaken to double its corporate membership. To date corporate membership has increased from eight to eleven members. With a change in its articles to allow corporate members into the organization, subscriptions and membership fees have increased from G\$500,000 to G\$4,550,250.

Other Sustainability Strategies

By some estimates there are almost as many Guyanese living abroad as there are in Guyana. The Commission will tap into the overseas Guyanese business community by offering associate status in the Commission. Developing these linkages will serve several purposes. First, such linkages may form the basis for future joint ventures as overseas Guyanese learn of the investment prospects in Guyana. Second, there may be opportunities for information and technology transfers which can strengthen Guyanese businesses. Finally, the Commission will gain additional revenue through the collection of associate membership dues.

VI. Expected Results

Success of this project will ultimately be measured in terms of the number of policy analyses presented to the Government, by the number of policy proposals accepted and implemented by the Government, and by the increased frequency of requests by the Government for PSC assistance in resolving political, social and economic problems.

On a more practical level, the success of the project will also be measured by the degree of sustainability that the Policy Unit and the Commission achieve over time. Success of advocacy initiatives will lead to increased membership and a greater willingness to pay higher dues and fees. More and better business services provided by the Centre will increase revenues and also serve to increase membership. The project financial plan and estimated budgets, presented below, target the covering of all local salaries by the end of Year 5.

VII. Financial Plan

Table I on the next page presents the financial plan for strengthening the Private Sector Commission. A total of US\$950,000 of additional funding over five years will be required to staff and equip the Commission's planned Policy Unit. Of this amount, the PSC contribution will rise from 12% in Year 1 to 36% by Year 5. The total request for outside funding is US\$706,000. Table 2 provides the estimated annual budgets for the PSC over the life of the project. The table again highlights the sources of increased funding, primarily increased membership fees and business services, which will help make the Policy Unit and the PSC financially self sufficient. The key to the success and sustainability of the Policy Unit will be the actual analysis, training, and mentoring performed by the Chief Economist. For this reason, we believe it is necessary to recruit a first-class economist. First preference would be a Guyanese. But given the level of training, skills, and experience sought, it is probable that an expatriate will be needed for this post. The Commission cannot realistically hope to cover the salary and other costs of such a person. However, the Commission will be able to meet its target of covering the salary of the Junior Economist by Year 3 and both local-hire positions by Year 5.

Private Sector Commission Strengthening Proposal Project Funding (US\$)								
Item/expense:		Unit price	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Current expenditures	Qty.	Month						
Chief Economist*	1	\$9,000	\$108,000	\$113,400	\$119,070	\$125,024	\$131,275	\$596,768
Junior Economist	1	\$2,750	\$33,000	\$34,650	\$36,383	\$38,202	\$40,112	\$182,346
Admin/Information	1	\$1,200	\$14,400	\$15,120	\$15,876	\$16,670	\$17,503	\$79,569
Capital Expenditures								
Vehicle	1	\$20,000	\$20,000					\$20,000
Computers	4	\$2,000	\$8,000					\$8,000
Computer programs		\$5,000	\$5,000					\$5,000
Laser printers	4	\$600	\$2,400					\$2,400
Office equipment/furniture			\$13,000					\$13,000
Total Funding Required			\$203,800	\$163,170	\$171,329	\$179,895	\$188,890	\$907,083
PSC contribution %			4%	13%	19%	26%	38%	
PSC contribution (US\$)			\$8,000	\$18,750	\$27,500	\$37,000	\$52,000	\$143,250
Donor Contribution (US\$)			\$195,800	\$144,420	\$143,829	\$142,895	\$136,890	\$763,833
Increased PSC funding sources:								
Increased subscriptions			\$3,000	\$5,750	\$8,500	\$10,000	\$15,000	
Outside funding			\$3,000	\$6,000	\$6,000	\$6,000	\$6,000	
Seminars			\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	
Computer training			\$500	\$3,000	\$6,000	\$10,000	\$15,000	
Market/invest. information services			\$500	\$3,000	\$6,000	\$10,000	\$15,000	
Total			\$8,000	\$18,750	\$27,500	\$37,000	\$52,000	

* Salary includes: housing allowance (\$10,000); shipment of household effects (\$20,000); annual roundtrip airfare (\$5000); for a net Year 1 salary of approximately US\$90,000.